

OFFICE OF AUDITS & ADVISORY SERVICES



ACCOUNTS PAYABLE VENDOR MASTER FILE AUDIT

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

June 30, 2014

TO: Tracy M. Sandoval
Deputy Chief Administrative Officer/Auditor and Controller

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: ACCOUNTS PAYABLE VENDOR MASTER FILE AUDIT

Enclosed is our report on the Accounts Payable Vendor Master File Audit. We have reviewed your response to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Mady Cheng at (858) 495-5679.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:MC:aps

Enclosure

c: Tracy L. Drager, Assistant Auditor and Controller
Brian M. Hagerty, Group Finance Director, Finance and General Government Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) completed an audit of the Accounts Payable Vendor Master File. The objective of the audit was to verify that adequate controls exist and are operating effectively over the setup and maintenance of vendors in the Accounts Payable Vendor Master File.

Background

The Auditor and Controller's Accounts Payable Division (A/P) is responsible for creating and maintaining vendors for the County. One A/P staff is primarily responsible for creating new vendor accounts in the Oracle ERP system ("Oracle") and three A/P staff are designated as backups.

Prior to 2003, vendor accounts were maintained in the previous ARMS accounting system. The County implemented the Oracle Enterprise Resource Planning (ERP) system in 2003 and subsequently upgraded to Oracle Release 12 E-Business Suite (R12) in November 2011. According to A/P management, ARMS allowed only one vendor site per vendor account. Therefore, a vendor with multiple sites (e.g., one site for store location and another site for accounting department) was set up as multiple vendor accounts. However, a vendor account in Oracle can have multiple vendor sites and each site can have a different address. During the data conversion from ARMS to Oracle in 2003, the multiple vendor accounts for different sites for the same vendor (i.e., with same vendor name and same tax ID) were carried over to Oracle as separate vendor accounts.

As of October 2012, there were 356K active vendor accounts and 367K active vendor sites. There are four main types of vendors in the Vendor Master File:

- Suppliers: External businesses or individuals that have provided goods and services to the County. Tax ID is a required data field for this type of vendor accounts.
- Employees: Prior to the Oracle R12 Upgrade, all County employees were automatically set up as vendors in Oracle for the purpose of reimbursing job-related expenses.
- Interfacing Claims: Certain payments are processed via interfaces from other systems to Oracle for one-time vendors, such as property tax refunds. Oracle automatically creates these vendors when payment data is interfaced to Oracle. Controls over vendor setup for these vendors reside primarily at the departments that initiate the interfaces. A/P does not require certain typical vendor setup supporting documents for these vendors.
- Other Vendors: These vendors are created to issue refunds due to external businesses or individuals for overpayments not processed

through interfacing claims. Tax ID is not required for this type of vendor accounts.

Audit Scope & Limitations

The audit covered the Vendor Master File as of October 2012. This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Interviewed A/P management and staff to understand the vendor maintenance process and related controls.
- Evaluated A/P's vendor maintenance policies and procedures for adequacy and appropriateness, and reviewed supporting documents to verify existence.
- Walked through the vendor setup process with the A/P staff responsible for vendor maintenance to verify that controls were in place over the setup and maintenance of vendor data stored in Oracle.
- Performed detailed analysis of vendor data downloaded from Oracle and County employee data downloaded from the PeopleSoft Human Resources Management System, including the following:
 - Identified instances where different vendor accounts had the same tax ID, bank account number, vendor name, or address in order to detect potential duplicate vendors.
 - Matched vendors to employees by tax ID, bank account number, name, and address in order to detect any potential conflicts of interest.
 - Summarized the vendor records created or last updated in Oracle in 2010, 2011, and 2012. Identified and researched instances where a vendor was not created or updated by designated A/P staff to detect unauthorized creation/updates of vendor records.
- Verified whether privileged Oracle access related to vendor maintenance was restricted to designated A/P roles, as follows:
 - Identified all Oracle roles related to Purchase-To-Pay (PTP).
 - Logged into the Oracle Test Instance using each PTP role. Verified whether the role could perform vendor maintenance functions, including adding/updating a vendor, adding a new vendor site, updating the vendor address, and reactivating an inactive vendor.

- Evaluated Oracle roles assigned to all A/P staff to detect any segregation of duties violation.
- Tested a judgmental sample of three inactive vendor accounts by logging into the Oracle Test Instance and verifying that these sample vendors were not listed in the Supplier data field and thus could not be used to create a new invoice in Oracle.
- Tested a judgmental sample of 20 vendor accounts and traced to other sources (i.e., Secretary of State website, County employee directory, or W-9 Forms) to verify vendor name and address in order to detect any fictitious vendors.

AUDIT RESULTS

Summary

Within the scope of the audit, controls over the setup and maintenance of vendors in the A/P Vendor Master File appear adequate, except for the following:

Finding I:

Controls to Detect Duplicate Vendor Accounts Could be Strengthened

Controls to prevent and detect duplicate vendors in the Vendor Master File need improvement, as evidenced by the following:

Potential Duplicate Vendor Accounts. OAAS performed detailed data analysis of vendor data in Oracle using ACL data analysis and Microsoft Excel applications to identify instances where different vendor accounts had the same tax ID, bank account number, vendor name, or address. As a result, OAAS identified the following potential duplicate vendor accounts:

- Tax ID: Of the 356K active vendor accounts, 10K accounts had a valid tax ID (i.e., not blank or zero). Tax IDs of 1,014 of the 10K (10%) accounts were the same for at least two different accounts.

For some vendors, different departments of the same vendor were set up as different vendor accounts, which explained certain instances of the same tax ID. In addition, according to A/P Management, when a vendor changed name, the Oracle ERP System required a new vendor account to be set up so that the transaction history under the old name could be maintained separately from the history under the new name. As a result, both the old and the new vendor accounts would stay in Oracle, resulting in multiple accounts with the same tax ID.

- Name: Of the 356K active vendor accounts, vendor names of 659 accounts (0.2%) were the same for at least two different accounts.

According to A/P Management, the previous accounting system (ARMS) allowed only one vendor site per vendor account.

Therefore, a vendor with multiple sites was set up in ARMS as multiple vendor accounts with the same vendor name and tax ID. During the data conversion from ARMS to Oracle in 2003, these multiple vendor accounts were carried over to Oracle as separate vendor accounts, resulting in multiple vendor accounts with the same vendor name and tax ID.

- Address: Of the 367K active vendor sites, vendor addresses for 6,188 sites (1.7%) were the same for at least two different sites.

Inaccurate Vendor Records. OAAS performed detailed data analysis of vendor data in Oracle and identified the following incidents:

- Two vendors' bank accounts were set up twice in Oracle.
- Three vendors had the same tax ID in Oracle. Department staff inadvertently entered the same tax ID for all three new vendors on the supplier request form and submitted the form to A/P. The department subsequently discovered the error and notified A/P via email to correct the error; however, the department did not submit an updated supplier request form and thus the error was not corrected by A/P.

Limited Coverage of Exception Report. The *1099 Supplier Exceptions Report*, run by A/P every quarter to identify duplicate vendor accounts, was limited to 1099-reportable vendors (i.e., those subject to 1099 tax reporting) with payments in the same quarter. Duplicate accounts set up for the same vendor in different quarters would not appear in this report. Also, the report did not include vendors who were not subject to 1099 tax reporting.

According to the current A/P policy dated May 2005, A/P staff should verify that a new supplier does not exist in Oracle by searching the supplier by tax ID and partial supplier name. When duplicate accounts exist in Vendor Master File for the same vendor, the risks of duplicate payments and inaccurate 1099 tax reporting to the Federal/State tax agencies increase.

Recommendation:

1. To prevent potential duplicate payments, A/P should review and research the lists of potential duplicate vendor accounts, as identified above, and deactivate any unnecessary duplicate accounts.
2. To ensure accurate Oracle vendor records, A/P should:
 - a. Deactivate the two vendors' bank accounts that were set up twice.
 - b. Correct the tax ID for the three vendors.

3. To prevent and detect duplicate vendors, A/P should strengthen existing policies and procedures to include the following:
 - a. Develop and implement policies and procedures on managing allowed exceptions such as vendor name changes.
 - b. Run the *1099 Supplier Exceptions Report* both quarterly and annually to identify duplicate vendors set up in different quarters within the same year.
 - c. Consider the feasibility of creating a report similar to the *1099 Supplier Exceptions Report* for vendors not subject to 1099 tax reporting in order to identify potential duplicate vendor accounts.

Finding II:**Inactive Vendors Not Archived**

As of October 2012, only 356K of the 1.3M (28%) vendors in the A/P vendor master file were active and 0.9M (72%) were inactive. According to A/P management, a custom Oracle program is run annually to add an *Inactive Date* to vendors with no activity for two years. However, A/P has not archived any vendor created in Oracle; therefore, the 1.3M vendors represent all vendors created since the implementation of Oracle in 2003.

According to management best practices, inactive vendors that are not archived could be reactivated increasing the risk for potential fraudulent and duplicate payments.¹ Additionally, the retention of unnecessary records could negatively impact the system's performance. Vendor master file records should be reviewed on a regular basis for inactive accounts,² and inactive accounts should be deleted.³

Recommendation:

The Auditor and Controller's Information Technology Management Systems Division should continue to work with Hewlett Packard, the County's IT service provider, to determine the feasibility of archiving inactive vendors.

¹ "To purge or not to purge: Handling inactive vendors" by Jared Bilski, January 2009. <http://www.cfodailynews.com/to-purge-or-not-to-purge-handling-inactive-vendorsndling-inactive-vendors>

² "Managing Risks in Vendor Relationships" by Mark Scott, March 2012. <http://www.acfe.com/fraud-examiner.aspx?id=4294972428>

³ "Procurement Fraud: Are you Prepared? – Prevention and detection" by Priya Giuliani, December 2013. <http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Pages/procurement-fraud-are-you-prepared.aspx>

Finding III:**Outdated Vendor Maintenance Procedures**

According to management best practices, policies and procedures should be updated as needed to stay accurate and relevant with current operating environment. A/P's internal procedures and related Oracle how-to guides for setting up a new vendor were not updated to reflect changes related to the Oracle R12 Upgrade in November 2011. As a result, A/P staff responsible for creating and updating vendor records might not know how to perform their job duties, especially in case of staff turnover.

Recommendation:

To reflect the changes related to the Oracle R12 Upgrade, A/P should update its policies and procedures and related Oracle how-to guides on vendor maintenance.

Office of Audits & Advisory Services**C**ompliance**R**eliability**E**ffectiveness**A**ccountability**T**ransparency**E**fficiency**VALUE**

DEPARTMENT'S RESPONSE



County of San Diego

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June 25, 2014

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OFFICE OF AUDITS &
ADVISORY SERVICES

TO: Juan R. Perez
Chief of Audits

FROM: Tracy M. Sandoval
Deputy Chief Administrative Officer/Auditor and Controller

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: ACCOUNTS PAYABLE VENDOR MASTER
FILE AUDIT

Finding I: Controls to Detect Duplicate Vendor Accounts Could be Strengthened

OAAS Recommendations:

1. To prevent potential duplicate payments, A/P should review and research the lists of potential duplicate vendor accounts, as identified above, and deactivate any unnecessary duplicate accounts.
2. To ensure accurate Oracle vendor records, A/P should:
 - a. Deactivate the two vendors' bank accounts that were set up twice.
 - b. Correct the tax ID for the three vendors.
3. To prevent and detect duplicate vendors, A/P should strengthen existing policies and procedures to include the following:
 - a. Develop and implement policies and procedures on managing allowed exceptions such as vendor name changes.
 - b. Run the *1099 Supplier Exceptions Report* both quarterly and annually to identify duplicate vendors set up in different quarters within the same year.
 - c. Consider the feasibility of creating a report similar to the *1099 Supplier Exceptions Report* for vendors not subject to 1099 tax reporting in order to identify potential duplicate vendor accounts.

Action Plan: We agree with the audit recommendations.

ASSESSOR/RECORDER/COUNTY CLERK
AUDITOR AND CONTROLLER
CHIEF ADMINISTRATIVE OFFICE
CIVIL SERVICE COMMISSION

CLERK OF THE BOARD
COUNTY COMMUNICATIONS OFFICE
COUNTY COUNSEL
COUNTY TECHNOLOGY OFFICE

GRAND JURY
HUMAN RESOURCES
RETIREMENT ASSOCIATION
TREASURER-TAX COLLECTOR

Department Response to Audit Recommendations: Accounts Payable
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Recommendation 1: Prior to the completion of the audit, Accounts Payable staff conducted a review of the potential duplicates mentioned in the finding and deactivated unnecessary accounts.

Recommendation 2: Prior to the completion of the audit, Accounts Payable staff corrected the two vendor bank accounts and three tax ID's

Recommendation 3a: Accounts Payable staff will update the procedures to reflect allowed exceptions by the end of July 2014.

Recommendation 3b: Currently the Accounts Payable staff run the 1099 supplier exception report on a quarterly basis and beginning in January 2014 we have implemented an annual review.

Recommendation 3c: Accounts payable staff has inquired with the County's IT provider as to the cost creating this report and are evaluating the cost benefit of implementation.

Planned Completion Date: July 31, 2014

Contact Information for Implementation: Katherine Lineback, Senior A&C Manager

Finding II: Inactive Vendors Not Archived

OAAS Recommendation: The Auditor and Controller's Information Technology Management Systems Division should continue to work with Hewlett Packard, the County's IT service provider, to determine the feasibility of archiving inactive vendors.

Action Plan: We agree with the finding and will continue to work with HP to identify an archiving solution.

Planned Completion Date: Complete

Contact Information for Implementation: Katherine Lineback, Senior A&C Manager

Finding III: Outdated Vendor Maintenance Procedures

OAAS Recommendation: To reflect the changes related to the Oracle R12 Upgrade, A/P should update its policies and procedures and related Oracle how-to guides on vendor maintenance.

Action Plan: We agree with the finding and will update the desk procedures.

Planned Completion Date: July 31, 2014

Contact Information for Implementation: Katherine Lineback, Senior A&C Manager

If you have any questions, please contact me at (619) 531-5413



TRACY M. SANDOVAL
Deputy Chief Administrative Officer/Auditor and Controller

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